

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Township of Lafayette	County Gratiot
Fiscal Year End March 31, 2006	Opinion Date June 22, 2006	Date Audit Report Submitted to State 9/8/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		Zip 48823	
Authorizing CPA Signature 		Printed Name Steven R. Kirinovic, CPA	License Number 1101022020

**Township of Lafayette
Gratiot County, Michigan**

FINANCIAL STATEMENTS

March 31, 2006

Township of Lafayette
Gratiot County, Michigan
March 31, 2006
BOARD OF TRUSTEES

Brian Gulick	Supervisor
Angela Kohtala	Clerk
Bonnie Aldrich	Treasurer
Julia Bolt	Trustee
Suzanne Derry	Trustee

Township of Lafayette

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Members of the Township Board
Township of Lafayette
Lafayette, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Lafayette, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Lafayette's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Township of Lafayette as of March 31, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the Township has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of April 1, 2005, along with all related statements and interpretations.

The budgetary comparison information, as identified in the Table of Contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 22, 2006

BASIC FINANCIAL STATEMENTS

Township of Lafayette
STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 138,040
Investments	63,359
Due from other governmental units	<u>8,158</u>
Total current assets	209,557
Noncurrent assets	
Capital assets not being depreciated	11,950
Capital assets, net of accumulated depreciation	<u>12,380</u>
Total noncurrent assets	<u>24,330</u>
TOTAL ASSETS	233,887
LIABILITIES	-0-
NET ASSETS	
Invested in capital assets	24,330
Unrestricted	<u>209,557</u>
TOTAL NET ASSETS	<u><u>\$ 233,887</u></u>

See accompanying notes to financial statements.

Township of Lafayette

STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Capital Grants and Contributions	
Governmental activities:				
General government	\$ 49,641	\$ 2,600	\$ 4,800	\$ (42,241)
Public safety	19,619	-	-	(19,619)
Public works	71,438	-	3,304	(68,134)
Total governmental activities	<u>\$ 140,698</u>	<u>\$ 2,600</u>	<u>\$ 8,104</u>	(129,994)
General revenues:				
Property taxes				86,973
State shared revenue				44,798
Investment earnings				4,371
Other				<u>1,783</u>
Total general revenues				<u>137,925</u>
Change in net assets				7,931
Net assets, beginning of the year				<u>225,956</u>
Net assets, end of the year				<u>\$ 233,887</u>

See accompanying notes to financial statements.

Township of Lafayette

GOVERNMENTAL FUND BALANCE SHEET

March 31, 2006

	General	Nonmajor Cemetery Perpetual Care	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 136,806	\$ 1,234	\$ 138,040
Investments	63,359	-	63,359
Due from other governmental units	8,158	-	8,158
TOTAL ASSETS	<u>\$ 208,323</u>	<u>\$ 1,234</u>	<u>\$ 209,557</u>
LIABILITIES AND FUND BALANCE			
LIABILITIES	\$ -	\$ -	\$ -0-
FUND BALANCE			
Reserved for cemetery care	-	1,234	1,234
Unreserved			
Undesignated	208,323	-	208,323
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 208,323</u>	<u>\$ 1,234</u>	<u>\$ 209,557</u>

See accompanying notes to financial statements.

Township of Lafayette

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

March 31, 2006

Fund balance - governmental fund **\$ 209,557**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental fund.

The cost of capital assets is	120,007	
Accumulated depreciation is	<u>(95,677)</u>	
Capital assets, net		<u>24,330</u>

Net assets of governmental activities **\$ 233,887**

See accompanying notes to financial statements.

Township of Lafayette

Governmental Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended March 31, 2006

	General	Nonmajor Cemetery Perpetual Care	Total Governmental Funds
REVENUES			
Taxes	\$ 86,973	\$ -	\$ 86,973
Intergovernmental - State	48,102	-	48,102
Charges for services	2,600	-	2,600
Interest	4,365	6	4,371
Other	1,783	-	1,783
TOTAL REVENUES	143,823	6	143,829
EXPENDITURES			
Current			
General government	47,198	171	47,369
Public safety	19,619	-	19,619
Public works	71,438	-	71,438
Other	9,852	-	9,852
TOTAL EXPENDITURES	148,107	171	148,278
EXCESS OF REVENUES (UNDER) EXPENDITURES	(4,284)	(165)	(4,449)
Fund balances, beginning of year	212,607	1,399	214,006
Fund balances, end of year	\$ 208,323	\$ 1,234	\$ 209,557

See accompanying notes to financial statements.

Township of Lafayette

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

Net change in fund balance - governmental fund **\$ (4,449)**

Amounts reported for governmental activities in the statement of activities are different because:

In the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Capital outlay	\$ 8,220	
Depreciation expense	<u>(640)</u>	
Excess capital outlay over depreciation expense		7,580

Some items reported in the statement of activities are not available to finance expenditures of the fiscal period and therefore are not reported as revenues in the governmental funds. These activities consist of:

Capital contribution	<u>4,800</u>
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Change in net assets of governmental activities **\$ 7,931**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lafayette Township, Michigan was organized as a Township under provisions of the constitution and general law of the State of Michigan. The Township is one of sixteen (16) townships in Gratiot County. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and two trustees and provides services in many areas including fire protection, roads, and planning.

1. Reporting Entity

As required by generally accepted accounting principles; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Township of Lafayette. The Township has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Township of Lafayette contain all the funds controlled by the Township Board.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Township as a whole.

The statement of activities presents the direct functional expenses of the Township and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services that are restricted to meeting the operational requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes interest, and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Township's individual major fund. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

The major fund of the Township is:

- a. General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The Government-wide financial statements are prepared using the accrual basis of accounting.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are property taxes, special assessments, and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Cash, cash equivalents, and investments

Cash and cash equivalents consist of checking and money market accounts. The cash and cash equivalents are recorded at cost, which approximates market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value.

6. Capital Assets

Capital assets include land, buildings and improvements, and equipment. Capital assets are stated at cost (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities. There is no capitalization policy threshold. All material purchases of assets with an estimated useful life of greater than one (1) year are capitalized. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Equipment	5 years
Building and improvements	30 years

Township of Lafayette
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

8. Due From Other Governmental Units

Due from other governmental units consists of amounts due from local units of government for property taxes collected that are still owed to the Township.

9. Property Taxes

Lafayette Township bills and collects both its own property tax levy and the tax levy for other governmental units. The Township's property tax revenue recognition policy and related tax calendar disclosures are as follows:

The property taxes attach as an enforceable lien on property as of December 1. Taxes are levied December 1 and are payable through February 14. All property taxes not paid by February 14 are deemed delinquent. Delinquent real property taxes are turned over to the Gratiot County Treasurer on March 1. The Gratiot County Treasurer remits payment to all taxing units on all delinquent real property taxes. Delinquent personal property taxes are retained by the Township for subsequent collection. Property taxes are recognized as revenues in the period for which they are levied.

The Township is permitted to levy up to \$1 per \$1,000 of assessed valuation for general governmental service and additional amounts for debt service. For the year ended March 31, 2006, the Township levied .9523 and 2.4825 mills per \$1,000 of assessed valuation for general governmental services and road and bridges, respectively. The total taxable value for the 2005 levy for property within the Township was \$23,523,104.

10. Budgets and Budgetary Accounting

The General Fund budget shown in the financial statements was prepared on a basis not substantially different than the basis used to reflect actual results.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. Prior to April 1, the budget is legally adopted on a departmental (activity) level through passage of a Board resolution. After the budget is adopted, all transfers of budgeted amounts between activities or any revisions that alter the total expenditures of the fund or activity must be approved by the Township Board.
- b. Formal budgetary integration is employed as a management control device during the year.
- c. The Township does not employ encumbrance accounting as an extension of formal budgetary integration. Appropriations unused at March 31 are not carried forward to the following fiscal year.
- d. Budgeted amounts are reported as originally adopted or amended by the Township Board during the year. There were no amendments to the originally adopted budget.

Township of Lafayette
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A: DESCRIPTION OF TOWNSHIP AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

11. Accounting Change

As of April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Some of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations has been included. The Township has elected not to include an MD&A.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided. Reconciliations are presented between the governmental fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$106,987, which was previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the Township's applicable capital assets.
- The fund financial statements focus on major funds rather than fund types.

This implementation has also required certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34 based on GASB Statement No. 38. Certain note disclosures have been added and/or amended, including descriptions of activities of major funds and interfund balances and transactions, and various other disclosures.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Township of Lafayette is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Township of Lafayette

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE B: CASH AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of March 31, 2006, the carrying amount of the Township's deposits was \$201,399 and the bank balance was \$209,857, of which \$178,269 was covered by federal depository insurance. The remaining balance of \$31,588 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Township held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of March 31, 2006, the Township did not have any investments that would be subject to rating.

Interest rate risk

The Township has not adopted a policy that addresses interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Township has not adopted a policy that addresses concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2006 was as follows:

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006
Capital assets not being depreciated				
Land	\$ 11,950	\$ -	\$ -	\$ 11,950
Capital assets being depreciated				
Building	83,483	8,220	-	91,703
Equipment	<u>11,554</u>	<u>4,800</u>	<u>-</u>	<u>16,354</u>
Subtotal	95,037	13,020	-0-	108,057

Township of Lafayette

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE C: CAPITAL ASSETS - CONTINUED

	Balance <u>April 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2006</u>
Less accumulated depreciation for:				
Building	\$(83,483)	\$ -	\$ -	\$(83,483)
Equipment	(11,554)	(640)	-	(12,194)
Total accumulated depreciation	(95,037)	(640)	-0-	(95,677)
Net capital assets being depreciated	-0-	12,380	-0-	12,380
Total net capital assets	<u>\$ 11,950</u>	<u>\$ 12,380</u>	<u>\$ -0-</u>	<u>\$ 24,330</u>

Depreciation expense of \$640 was allocated to the general government function on the statement of activities.

NOTE D: RISK MANAGEMENT

The Township participates in a pool, the Michigan Township Participating Plan with other municipalities for property, auto, liability, wrongful acts, crime, and inland marine losses. The pool is organized under Public Act 138 of 1982, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have rights to dividends.

The Township also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Township has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE E: RETIREMENT PLAN

The Township of Lafayette is the sponsor of a retirement plan for the sole benefit of its employees. The Township of Lafayette Pension Plan is a money purchase defined contribution pension benefit plan. During the year ended March 31, 2006, the Township of Lafayette made contributions for all participating employees of 7% per employee, with the participating employees required to contribute 7% each.

All members of the Township Board and Cemetery maintenance employees are eligible to participate in the plan. All eligible employees participate in the plan. There was no cemetery maintenance employees during the year ended March 31, 2006. The contributions fund the premiums for Individual Deferred Annuity policies with The Manufacturers Life Insurance Company.

For the year ended March 31, 2006, the Township of Lafayette had a total payroll of \$29,870. The Township of Lafayette Retirement Plan covered a payroll of \$28,350. The Township of Lafayette paid contributions to the retirement plan in the amount of \$1,985.

NOTE F: FUND BALANCE RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following is the fund balance reserve as of March 31, 2006:

Cemetery Fund	
Reserved for cemetery care	<u>\$ 1,234</u>

Township of Lafayette

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

In the required supplementary information to the financial statements, the Township's budgeted expenditures in the General Fund have been shown at the functional classification level. The approved budgets of the Township have been adopted at the activity level.

During the year ended March 31, 2006, the Township incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Township Hall	\$ 2,750	\$ 9,852	\$ 7,102
Board of Review	1,000	1,183	183
Treasurer	8,600	8,610	10
Public works			
Drains at large	1,000	3,325	2,325
Other			
Insurance and pension plan contribution	5,000	8,717	3,717

REQUIRED SUPPLEMENTARY INFORMATION

Township of Lafayette

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes				
Current Tax Levy	\$ 79,000	\$ 79,000	\$ 80,792	\$ 1,792
Administrative fees	5,900	5,900	6,065	165
Interest and penalties	100	100	116	-0-
Total taxes	85,000	85,000	86,973	1,957
Intergovernmental - State				
State revenue sharing	48,000	48,000	44,798	(3,202)
Metro - right of way	-	-	3,304	3,304
Total intergovernmental	48,000	48,000	48,102	102
Charges for services				
Fire and rescue	3,000	3,000	2,600	(400)
Interest	1,750	1,750	4,365	6,115
Other				
Hall rent	500	500	445	(55)
Cemetery lots	1,000	1,000	1,050	50
Other	100	100	288	188
Total other	1,600	1,600	1,783	183
TOTAL REVENUES	139,350	139,350	143,823	4,653
EXPENDITURES				
General government				
Township Board	3,600	3,600	3,200	400
Supervisor / Assessor	9,000	9,000	8,700	300
Clerk	7,800	7,800	7,560	240
Board of review	1,000	1,000	1,183	(183)
Treasurer	8,600	8,600	8,610	(10)
Elections	500	500	-	500
Township hall	2,750	2,750	9,852	(7,102)
Cemetery	13,000	13,000	5,233	7,767
Other	3,190	3,190	2,860	330
Total general government	49,440	49,440	47,198	2,242
Public safety				
Emergency services	20,000	20,000	19,619	381

Township of Lafayette

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended March 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Public works				
Highways, streets, and bridges	80,925	80,925	68,113	12,812
Drains	<u>1,000</u>	<u>1,000</u>	<u>3,325</u>	<u>(2,325)</u>
Total public works	81,925	81,925	71,438	10,487
Other				
Insurance and pension plan contribution	5,000	5,000	8,717	(3,717)
Other	<u>4,200</u>	<u>4,200</u>	<u>1,135</u>	<u>3,065</u>
Total other	<u>9,200</u>	<u>9,200</u>	<u>9,852</u>	<u>(652)</u>
TOTAL EXPENDITURES	<u>160,565</u>	<u>160,565</u>	<u>148,107</u>	<u>12,458</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(21,215)	(21,215)	(4,284)	17,111
Fund balance, beginning of year	<u>212,607</u>	<u>212,607</u>	<u>212,607</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 191,392</u>	<u>\$ 191,392</u>	<u>\$ 208,323</u>	<u>\$ 17,111</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

MANAGEMENT LETTER

To the Members of the Township Board
Township of Lafayette
Breckenridge, Michigan

Dear Ladies/Gentlemen:

As you know, we recently completed our audit of the records of the Township of Lafayette, Michigan for the year ended March 31, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are the result of our evaluation of the internal control structure and our discussions with management.

1. The Township should review the listing of capital assets for completeness incorporating estimated useful lives and develop a capitalization threshold.

During our analysis of the capital assets, we noted that although the Township has maintained historical cost information for capital assets, estimated useful lives for each capital asset have not been assigned. Additionally, the capital asset listing was not updated to reflect additions to capital assets and there is not a Board established capitalization threshold amount. This issue was noted and reported in our comments for the prior audit.

We suggest the Township develop and adopt a formal capitalization policy establishing a threshold for items to be included on the list. The Township should also review the current listing of capital assets to assure that the listing is complete, assigning estimated useful lives, where applicable. Such information should then be maintained each year in order to calculate depreciation expense and accumulated depreciation for the capital assets.

2. The Township should review various areas of operation and consider additional segregation of duties.

During our consideration and assessment of fraud risk, we noted that the Township may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.). This issue was noted and reported in our comments for the prior audit.

While this is a common occurrence in small organizations due to the limited number of employees, the Township Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Township review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Township Board provide a greater review and supervision of employee functions and procedures.

3. Budgets should be monitored and amended when necessary.

As noted in Note G of the financial statements, several functional classifications exceeded the amounts appropriated in the General Fund for the year ended March 31, 2006. The Michigan Public Act 621 of 1978, as amended, provides that the Township adopt formal budgets for the General Fund, and shall not incur expenditures in excess of the amount appropriated.

We suggest the Township periodically monitor the adopted budget for the General Fund and amend the budget as necessary throughout the year to alleviate unfavorable budget variances.

4. The Board should amend the Township's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Township has not amended their investment policy to address various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Township's funds. These resources are necessary for the delivery of the Township's services programs. Effective for the year ended March 31, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Township's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Township's financial statements by GASB Statement No. 40.

5. The Township should use QuickBooks to track all revenues and expenditures.

During our analysis of the Township's transactions, we noted QuickBooks is used to track the expenditures, but it is not used to record the revenues. Also, the Balance Sheet for the Township is not being maintained. This means QuickBooks is being used more as an electronic checkbook rather than the computerized double-entry accounting system as it is intended to be. Entering all information into the QuickBooks program would allow interim reports to be printed and used as a planning tool. It was also noted that in addition to recording some of the transactions in QuickBooks there are manual ledgers being maintained and not all transactions were included in these ledgers. This made it extremely difficult and time consuming to get a balanced trial balance for audit purposes as a trial balance could not be produced out of QuickBooks.

We suggest the Township implement procedures to fully utilize the QuickBooks program to track revenues and expenditures and produce interim reports including a Revenue and Expenditures report and a Balance Sheet for the Board's review at meetings.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the general purpose financial statements and this report does not affect our report on the general purpose financial statements dated June 22, 2006.

This report is intended solely for the use of management and the Township Board of the Township of Lafayette, Michigan and should not be used for any other purpose. We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 22, 2006